



Financial Highlights and Five Year Review

for the years ended September 30
(thousands of dollars, except per share data, ratios and statistical data)

Operations Data	1983	1982	1981	1980	1979
Sales	\$15,507	\$12,685	\$12,053	\$8,411	\$5,059
Gross Profit	6,906	5,667	4,334	3,436	1,916
Research and Development	2,558	2,123	1,336	549	214
Net Earnings before Income Tax	2,644	2,047	1,593	1,482	728
Net Earnings	1,830	1,373	1,222	1,013	512
Dividends Paid	23	47	45	22	18
Capital Expenditures (including Goodwill)	3,347	721	302	469	186

Financial Data					
Working Capital	\$11,296	\$ 4,298	\$ 3,267	\$1,864	\$1,048
Fixed Assets — Net	2,747	1,007	611	566	328
Long-term Debt	237	338	450	133	185
Shareholders' Equity	14,767	4,830	3,426	2,249	1,207

Ratio and Percentages					
Gross Profit as % of Sales	44.5%	44.7%	36.0%	40.9%	37.9%
Net Earnings as % of Sales	11.8%	10.8%	10.1%	12.0%	10.1%
R & D as % of Sales	16.5%	16.7%	11.1%	6.5%	4.2%
Current Ratio	3.9:1	2.3:1	2.4:1	1.7:1	1.7:1

Per Common Share Data					
Earnings per Share (basic)	\$0.64	\$0.60	\$0.60	\$0.55	\$0.31
Book Value per Share	4.32	2.06	1.50	1.01	0.60
Market Price Range — High	14 1/2	—	—	—	—
— Low	9 1/2	—	—	—	—
(1983 Public Issue price \$8 3/4)					

Statistical Data					
Number of Common Shares Outstanding	2,856,030	2,286,575	2,033,225	1,847,175	1,635,300
Number of Common Shareholders	898	164	N/A	N/A	N/A
Number of Employees	175	164	161	143	97

Cover Photo

GL2020 and GL2021 radiotelephone control heads.

Annual General Meeting

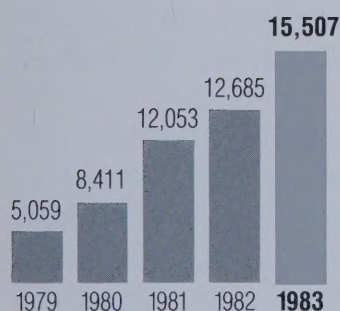
The Annual General Meeting of the Shareholders will be held on Friday, December 16, 1983 at 3.30 pm in the Governors Room of the Coach House Inn, 700 Lillooet Road, North Vancouver.

Recent technological developments and major regulatory changes have dramatically increased the demand for mobile communications equipment, both voice and data. Glenayre is a leading supplier of radiotelephone equipment to the North American mobile communications market. Through its commitment to research and development, and its reputation as a manufacturer of high quality equipment it is well placed to grow in this expanding market, particularly in the areas of cellular radiotelephone, large scale paging and voice mail-box systems.

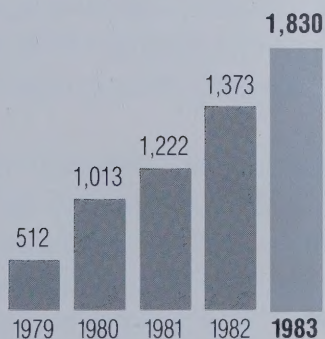
Glenayre's head office is located in North Vancouver, British Columbia. The company's U.S. subsidiary, Glenayre Electronics Inc., of Blaine, Washington, operates four regional sales offices in Seattle, Washington; Sunnyvale, California; Pinehurst, Texas, and Conyers, Georgia.

Corporate Profile

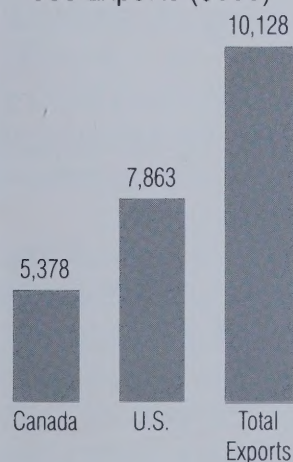
Sales (\$000)



Net Earnings (\$000)



1983 Exports (\$000)



Report to Shareholders

1983 has been another record year of sales, production, and profits. It was a year of significant events, including product rationalizations, acquisitions, and commencement of construction of new premises. We also concluded a successful public share offering and we take this opportunity to welcome all new shareholders.

Briefly, this years operating results (based on restated results for 1982) are:

● Sales	Up 22%
● Net Earnings	Up 33%
● Exports	Up 29%
● R & D	Up 20%

This performance was achieved under the most severe economic conditions since we re-organized the company in 1969. Shipments increased by almost 3 million dollars from \$12.6 to \$15.5 million, in spite of the loss of our previously strong Mexican market due to their shortage of U.S. dollars. Our order backlog is still over \$6 million.

Our public share offering was well received and we believe that our conservative policies with respect to writing off R & D and conservative forecasting are appreciated by the market.

Our new building in Vancouver is under construction and we expect to have the first 60,000 square feet completed and occupied before July 1st, 1984. The new building will permit streamlining of production, and provide a better working environment for our staff, who have had to work in less than ideal conditions.

Corporate development this year has emphasized communications products, which historically have produced 80% of our profits. Based on the expected growth of paging services and the similarity of markets and technology to those of our existing products, we planned to enter the paging business. In order to accomplish this quickly, we decided to acquire the technology. After looking at several options, the purchase of ECI Electronics, a company in the forefront of paging and voice mail-box technology was completed in July and is now totally integrated with our Vancouver operations. Sales of paging and related products are expected to show substantial growth over the next three years.

Potential suppliers of Voice Mail-box products are constrained by a broad concept technology patent granted early this year to VMX Inc. of Richardson, Texas. Glenayre has recently purchased from VMX non-exclusive world-wide rights to use this technology in its products.

With the greatly expanded activity in communications we decided to seek a major partner to undertake the marketing, installation, and systems engineering for our railroad and mining products. Discussions are presently underway with potential partners.

In addition to these positive operating results and major steps in corporate development, other significant technical advances were achieved.

The LIC system at B.C. Rail is running on 150 miles of track. The operating personnel are pleased with the results and expect to put it on full control in February, 1984.

The DIGITAIR product has achieved outstanding results in the most recent field trials, and technologically is far ahead of competitive equipment. This market, though still politically sensitive, should start to develop early next year.

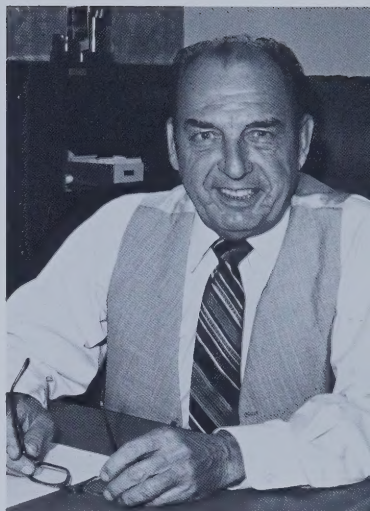
We have added HF (high frequency) signalling products to our communications product line, and have also contracted with the Canadian Department of Communications to design and develop radiotelephone equipment for use in their Mobile Satellite program. These products are complementary to our other communications products and will contribute to such areas as cellular communications.

An important engineering and marketing achievement was the successful turn-up of the first major AUTOTEL system, supplied to B.C. Telephone Co. This digital, networking radiotelephone system is one of the most advanced multi-terminal systems available and provides many of the features of a cellular terminal.

The radiotelephone control head for the AUTOTEL system is being re-designed using very large scale integrated circuits. This is our first entry into this field of technology and should prove invaluable in the development of cellular equipment.

In spite of the delicate condition of national economies, we are optimistic about the coming year. The outstanding quality of our staff and their dedication to building a successful company makes this confidence possible. The Board of Directors recognizes that it is people who make the difference between mediocrity and excellence and extends their appreciation to all employees for their dedication, which has consistently placed us ahead of our competition.

On behalf of the Board of Directors.



E. K. Deering — President

A handwritten signature in dark ink, reading "E. K. Deering". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

E. K. Deering
Chairman, President, and Chief Executive Officer
November 4, 1983

Product Highlights



An engineering schematic of a product has to be translated into a circuit layout which will be used to manufacture the basic circuit board. The limited amount of board space typically available coupled with the complexity of the design means most circuit board artworks have to be laid out at two or four times life size in order to maintain the very close tolerances required.

Radiotelephone Equipment

Conventional Systems

Mobile telephone service (MTS) in most parts of Canada and in some parts of the U.S. requires an operator to route calls to and from all radiotelephones. Since the mid 1970's in the U.S. fully automatic direct dialing has been possible with the improved mobile telephone service (IMTS) system. All mobile telephone systems use similar elements: mobile equipment (control head and radio transmitter/receiver), base station equipment (antenna and transceiver) and a control terminal. Glenayre specialises in the manufacture of the radiotelephone control heads and control terminals, and is the leading supplier of IMTS radiotelephone equipment in the United States, with over 60% of the market.

Glenayre started manufacturing IMTS radiotelephone equipment in 1978 and since then has held a reputation for producing high-quality, reliable and highly innovative equipment. The new GL2021 is the most sophisticated radiotelephone available today with a number of Glenayre exclusive operating features. It is only recently that features provided by our original IMTS radiotelephone, the GL2000 (which was introduced more than 6 years ago), have been successfully duplicated by other control head manufacturers. These same features revolutionized IMTS service and the GL2000 became the industry standard. More than 15,000 GL2000's were shipped before it was discontinued in 1982. The demand for its successor, the GL2020 and the new top-of-the-line GL2021, has been even greater, with more than 7,000 units already shipped, and several thousand units on order backlog. Of the estimated

150,000 radiotelephones currently in use in the U.S., one-sixth are Glenayre units.

Over 170 GL1200 series radiotelephone terminals are installed in a number of countries, with the heaviest concentration in the U.S. and Mexico. The GL1200 was the first micro-processor based IMTS control terminal. The hardware is virtually unchanged since it was introduced in 1978, any updating is done by supplying new software (the computer program which runs the system).

One of the outstanding features of the GL1200 terminals is the almost complete reliability. If a fault occurs it can be isolated to a single plug-in board, which can be replaced with a spare. If service cannot be restored in this manner Glenayre guarantees they will fly to wherever the terminal is, and fix it — only one plane ticket has been bought in the 6 years the terminals have been operating.

The newest product in the control terminal line, is the GL1205 mini terminal, a small low-cost version of the GL1200 aimed at operating companies only providing a few channels of service.

The market for IMTS systems will continue even with the onset of cellular radiotelephone, as the cost of a cellular system will inhibit its implementation in most small population centers and in outlying scarcely populated areas.

Multi-Terminal Distributed Systems

Conventional radiotelephone systems are typified by one control terminal serving a certain number of subscribers, which essentially limits a mobile subscriber to operation within an area immediately surrounding the control terminal and its associated base station transceivers. In a multi-terminal dis-

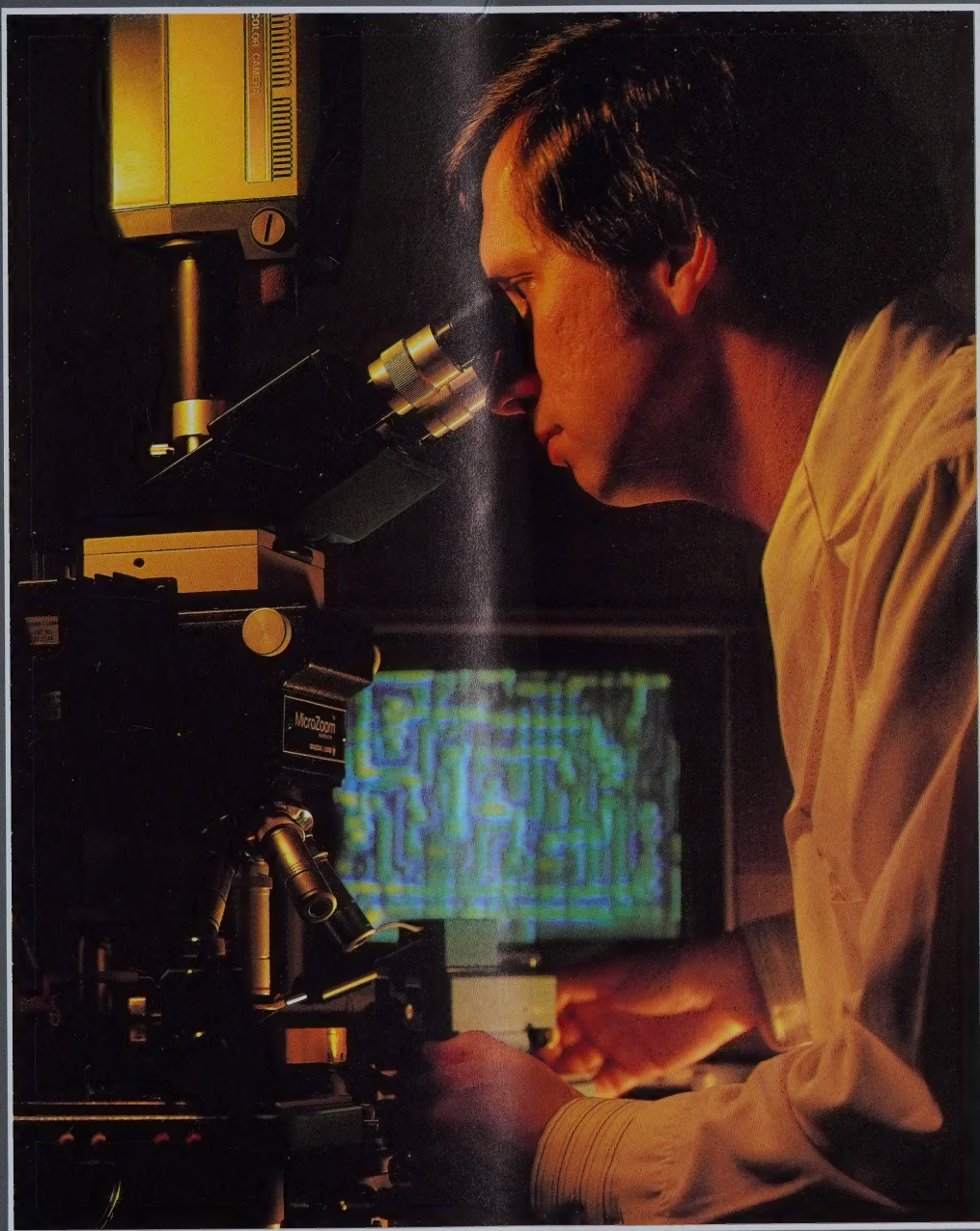
tributed system, all terminals are interconnected via a data network so that information on mobile subscribers can be passed from one terminal to another as they drive around the system.

Glenayre's new AUTOTEL system is typical of such a system. It consists of a number of "building block" control terminals (GL1216) interconnected to form a network, providing fully automatic radiotelephone service over very large areas. If a mobile subscriber moves out of range of its "home" terminal it can choose to "sign-in" on another terminal. If it does so, a message is sent by the new terminal back to the mobile's home terminal giving the mobile's new location. Thereafter calls made to the mobile will be routed, using the normal telephone network and the terminal currently serving the mobile. If the mobile does not wish to receive calls when away from its home terminal (since long distance charges will be incurred) another number can be given e.g. the mobile users office number. All calls made to the mobile will be forwarded to that number.

The AUTOTEL system uses a Glenayre proprietary digital signalling scheme, which is much faster than conventional IMTS formats. The AUTOTEL control head operates in much the same manner as conventional units, and offers all the same operating features.

The AUTOTEL system just recently cut into service by B.C. Telephone Co. will eventually provide direct dial mobile service throughout the quarter of a million square miles of B.C. Tel.'s operating area, using close to 40 GL1216 control terminals, with the potential for 40,000 subscribers loaded on the system.

Work is presently underway to add additional features to the



Glenayre has within the last year started a program to design custom VLSI (Very Large Scale Integration) micro-chips. These chips can potentially replace up to a hundred "off the shelf" chips. It is only very recently that the technology to design custom chips has become available to equipment manufacturers, but the field is still so new that results are only achieved by a constant design, build

and test process. The above photograph shows a "probe station" which allows the engineer to precisely locate metallic probes on circuitry within the chip during test sequences. It also allows viewing and/or display onto a TV screen of the circuitry within the tiny and highly complex chip.

Product Highlights



Glenayre has extensive engineering design and development facilities including a fully equipped engineering laboratory. It is staffed by engineering technologists who build and test engineering prototypes, as well as maintaining the extensive amount of engineering test and development equipment. The photograph shows the testing of a prototype GL1142 HF Mini Terminal.

system, including cellularstyle automatic hand-off. The AUTO-TEL system provides an efficient, low-cost alternative to a cellular system, in markets which will not support the heavy start-up costs associated with cellular but require a larger system than can be provided with conventional equipment.

Cellular/Satellite Systems

As demand for mobile communication service increases, the regulatory authorities in both Canada and the U.S. have had to re-assess the allocation of frequencies (radio channels) for radiotelephone usage. Some new frequencies have been made available in the U.S., but the most significant development is in the licensing of cellular radiotelephone systems. The basic components in a cellular system are the same as in a conventional system, but the way in which they are configured enables a limited number of frequencies to be re-used within a system and serve many times more subscribers. A cellular system is divided into a number of small areas, termed cells, each cell served by a low power base station transceiver, this allows the same frequency to be used simultaneously in two non-adjacent cells only a short distance apart.

Glenayre is developing equipment for use in some of the smaller cellular licensed areas, as well as control heads for use on existing cellular systems in some of the major U.S. cities.

Simultaneously and in conjunction with this development Glenayre is involved in the Canadian Mobile Satellite (MSAT) program, specifically in the design of car telephone equipment for use on the planned public mobile telephone system. A single MSAT system will provide data and voice com-

munication, over a very large area to many thousands of users, with interconnection to the conventional telephone network and interoperability with cellular systems.

Both programs will place Glenayre in the forefront as a manufacturer of cellular and satellite radiotelephone equipment.

Paging and Voice Mail-box

Radiotelephone service and paging service have always been closely related, typically the same company would offer both types of service. Glenayre has repeatedly been requested by its existing radiotelephone customer base to enter the paging business, since the standard of paging terminals currently available is unsatisfactory. At the same time significant changes in the U.S. market, primarily in regulatory changes permitting nationwide or wide area paging, plus recent technological developments providing cheaper and better service, meant the paging market was one in which Glenayre could find widespread acceptance. Using the GL-RNS3000 paging terminal as the basic product, work has commenced on the development of a "family" of paging and voice message handling equipment to meet all existing and future market requirements.

The GL-RNS3000 already represents a large step forward in paging technology. It has the ability to mix full-function paging with voice message storage and dialup retrieval ("mail-box"). In its simplest form a voice mail-box operates like a standard telephone answering machine, but to many subscribers. In its more complex configurations messages can not only be stored and retrieved but can be redirected to a second phone number, or one message can be sent to a number of dif-

ferent phones. With the recent agreement for world-wide rights to market voice mail-box equipment, Glenayre is in an ideal position to capitalise on this important market.

Other Communications Products

HF (High Frequency) Equipment

Glenayre's expertise in voice communications meant it was a natural progression to move into the data communications equipment market.

Two pieces of equipment are currently available, both incorporate an advanced modem and use sophisticated techniques to provide fast, error-free transmission of data.

The GL1102 Pulse Compression Modem permits data to be sent, by radio, over thousands of miles. Its main application is in an air-to-ground data system.

The GL1142 Mini "Message" Terminal is used to send and receive data and text messages on existing HF systems. The terminal contains a keyboard for entering the messages, and a printer to print out the messages as they are received.

DIGITAIR

The DIGITAIR system also uses sophisticated data communications techniques, it has, however, specific application on railroads. It provides the engineer with a continuous digital display of the air-pressure in the brakes at the end of the train.

The major significance of DIGITAIR is that it eliminates the need for a manned caboose, providing substantial savings in operating costs. Under rigorous testing, DIGITAIR has been shown to outperform competing products. Several major U.S. railroads are evaluating DIGITAIR systems and it is anticipated that the demand for the system, particularly in the U.S. will be extensive.



All radiotelephone and paging terminals undergo rigorous testing before shipment, including independent testing of all the plug-in circuit boards, testing of the system mainframe, and complete testing of the fully loaded terminal equipped with all circuit boards. Testing is followed by a period of "burn-in" where the unit is powered up and left running for up to 7 days. The final test sequence identifies and corrects any failures which may have occurred during burn-in.

Glenayre Electronics Ltd.

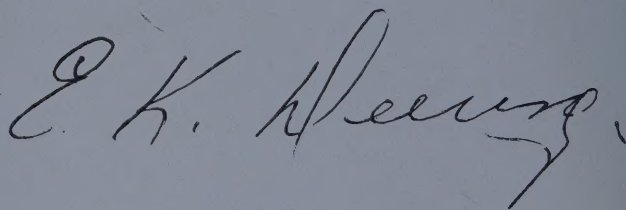
Consolidated Balance Sheet

(thousands of dollars)

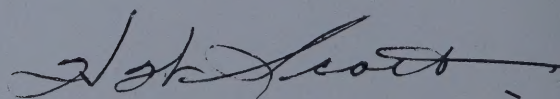
Year Ended September 30th

Assets	1983	1982 Restated (Note 13)
Current assets		
Cash and short-term deposits	\$ 7,112	\$ 2,083
Accounts receivable (Note 2)	4,665	2,712
Inventories (Note 3)	3,218	2,723
Prepaid expenses	47	57
Total Current Assets	15,042	7,575
Fixed assets (Note 4)	2,749	1,008
Goodwill at amortized cost (Note 5)	1,210	—
	\$19,001	\$ 8,583
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,236	\$ 2,704
Corporate income taxes payable	412	150
Current portion of long-term debt	65	101
Deferred income taxes	82	322
Total Current Liabilities	3,795	3,277
Long-term debt (Note 6)	172	237
Deferred income taxes	316	239
Total Liabilities	4,283	3,753
Shareholders' equity		
Capital stock (Note 7)	8,790	247
Contributed surplus (Note 7)	163	163
Retained earnings	5,765	4,420
Total Shareholders' Equity	14,718	4,830
	\$19,001	\$ 8,583

On behalf of the Board of Directors



E. K. Deering, Director



H. W. Scott, Director

	Year Ended September 30th	
	1983	1982 Restated (Note 13)
Sales	\$15,507	\$12,685
Expenses		
Cost of goods sold	8,601	7,018
Research and development (Note 8)	2,558	2,123
Administrative and selling expenses	1,842	1,387
Depreciation and Amortization	361	326
Interest — on long-term debt	34	56
— interest income	(533)	(272)
	12,863	10,638
Earnings before income taxes	2,644	2,047
Income taxes		
Current	985	449
Deferred	(171)	225
	814	674
Net earnings	\$ 1,830	\$ 1,373
Earnings per share (Note 10)	\$0.64	\$0.60

Glenayre Electronics Ltd.

Consolidated Statement of Earnings

(thousands of dollars except per share amounts)

	Year Ended September 30th	
	1983	1982
Retained earnings — beginning of year		
As previously reported	\$ 4,425	\$ 3,063
Prior period adjustment (Note 13)	(5)	72
As restated	4,420	3,135
Net earnings	1,830	1,373
Stock issue expenses (Net of tax recovery of \$190)	462	—
Dividends	23	47
Refundable dividend tax	—	25
Cancellation of shares	—	16
Retained earnings — end of period	\$ 5,765	\$ 4,420

Consolidated Statement of Retained Earnings

(thousands of dollars)

Glenayre
Electronics Ltd.

Consolidated
Statement of
Changes in
Financial Position

(thousands of dollars)

	Year Ended September 30th	
	1983	1982 Restated (Note 13)
Working capital derived from operations		
Net Earnings after adjustment for items not involving working capital	\$ 2,259	\$ 1,823
Proceeds from disposal of fixed assets	44	—
Issue of shares for cash	7,598	102
— Less related expenses (net of tax recovery)	(462)	—
	\$ 9,439	\$ 1,925
Working capital applied to		
Purchase of fixed assets	\$ 2,115	\$ 721
Goodwill on purchase of ECI Electronics Ltd. — less related share issue (Note 5)	287	—
Decrease in long-term debt	65	101
Dividends paid	23	47
Refundable dividend tax	—	25
	\$ 2,490	\$ 894
Increase in working capital	\$ 6,949	\$ 1,031
Working capital — beginning of period	4,298	3,267
Working capital — end of period	\$11,247	\$ 4,298
Represented by		
Current assets	\$15,042	\$ 7,575
Current liabilities	3,795	3,277
	\$11,247	\$ 4,298

Auditors' Report

To the Shareholders of Glenayre Electronics Ltd.

We have examined the consolidated balance sheet of Glenayre Electronics Ltd. as at September 30, 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1983, and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada
November 10, 1983

MacGillivray & Co.,
Chartered Accountants

1. Summary of Accounting Policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The more significant policies are outlined below.

(a) Consolidation:

The consolidated financial statements include the accounts of Glenayre Electronics Ltd. and its wholly-owned subsidiaries, Glenayre Electronics Inc. and ECI Electronics Ltd., after elimination of inter-company accounts and transactions. Earnings of ECI Electronics Ltd. are consolidated from the date of acquisition, July 25, 1983.

(b) Foreign Exchange:

The accounts of Glenayre Electronics Inc. have been translated into Canadian dollars as follows: monetary assets and liabilities at the exchange rate in effect at the balance sheet date, nonmonetary items at the exchange rate in effect when they were acquired, and revenue and expenses (other than depreciation and amortization) at average exchange rates during the period. The resulting gains or losses on translation are included in the results of operations.

(c) Revenue Recognition:

Revenue from sales of products is recognized at the time goods are shipped to customers. Revenue from sale of research and other long-term contracts is recognized when progress billings are rendered.

(d) Inventories:

Raw materials are valued at the lower of the average cost of materials purchased and replacement cost. Work in process and finished goods are valued at the lower of cost (including the materials, labour and overhead costs based on actual rates) and net realizable value.

(e) Fixed Assets:

Fixed assets are stated at cost. Depreciation is provided on the declining balance method at the following annual rates:

Computer software	50% and 100%
Computer hardware	30%
Furniture and fixtures	20%
Machinery and equipment	20%

(f) Goodwill:

Goodwill resulting from the acquisition of ECI Electronics Ltd. (see Note 5), is being amortized on a straight line basis over a period of 10 years.

(g) Income Taxes:

The company follows the tax allocation method of providing for income taxes. Deferred income taxes represent amounts not payable until future years because certain expenses, principally depreciation and amortization, have been expensed for tax purposes on an accelerated basis.

Investment tax credits and allowances are reflected as reductions in income taxes in the year utilized.

Dividend payments from the subsidiary company are subject to foreign withholding taxes. The company has no plans to remit the accumulated earnings of its subsidiary and accordingly no provision has been made for taxes on repatriation.

(h) Research and Development Costs:

Research and Development costs (which include direct labour, materials and applicable overhead costs) are expensed in the period in which they are incurred. Government grants are offset against the applicable costs incurred.

Glenayre Electronics Ltd.

Notes to the Consolidated Financial Statements

2. Accounts Receivable	1983	1982
	<i>(thousands of dollars)</i>	
Trade	\$ 4,081	\$ 2,178
Government contracts	248	526
Other	336	8
	\$ 4,665	\$ 2,712
3. Inventories	1983	1982
	<i>(thousands of dollars)</i>	
Raw materials	\$ 1,555	\$ 1,138
Work in process	1,606	1,433
Finished goods	57	152
	\$ 3,218	\$ 2,723
4. Fixed Assets	1983	1982
	<i>(thousands of dollars)</i>	
Land	\$ 1,488	\$ —
Furniture and fixtures	462	355
Machinery and equipment	1,959	1,556
Leasehold improvements	254	245
Construction in progress	50	—
	4,213	2,156
Less accumulated depreciation	1,464	1,148
	\$ 2,749	\$ 1,008

5. Acquisition and Investment

Acquisition:

On July 25, 1983, the company acquired 100% of the outstanding shares of ECI Electronics Ltd., a Canadian manufacturer of electronic paging terminals. The acquisition has been accounted for as a purchase and accordingly, the results of operations since July 25, 1983 have been included in the consolidated financial statements.

Net tangible assets acquired:	
— Current assets	\$ 962
— Fixed assets	102
	\$ 1,064
— Current liabilities	847
— Long-term liabilities	8
	\$ 855
Net tangible assets	\$ 209
Consideration given:	
— Cash and expenses related to the acquisition	\$ 497
— Common shares issued (90,006)	945
Total consideration given	1,442
Goodwill at cost	\$ 1,233
Accumulated amortization	\$ 23

In addition to the foregoing consideration, a further 109,995 common shares are held in escrow and will be released to the vendors in 1984, 1985 and 1986, upon the achievement of a specified level of sales of paging equipment and related products. This consideration will be recorded when, and if, the shares are released.

Investment:

In February 1983 the Company obtained a 40% interest in a Mexican joint venture in return for the delivery of certain goods and the provision of future technical services. Currently, the joint venture is inactive and due to the uncertainty of future activities the investment therein is to be carried at \$1.

6. Long-term Debt	1983	1982
	(thousands of dollars)	
Federal Business Development Bank Payable at \$4,000 per month plus interest at 11 1/2% per annum	\$ —	\$ 36
British Columbia Development Corp. Payable at \$3,400 per month plus interest at prime rate (as designated by B.C.D.C.) plus 2%	139	180
Low Interest Loan Assistance Fund via British Columbia Development Corporation Payable in installments of \$2,000 per month plus interest at one-half prime rate (as designated by B.C.D.C.)	98	122
	237	338
Less current portion	65	101
	\$ 172	\$ 237

All loans are evidenced by debentures creating fixed and floating charges over the company's assets.

Future payments of principal are required as follows in the next five fiscal years:

1984	\$64,800
1985	64,800
1986	64,800
1987 (final payment)	43,000

7. Capital Stock and Contributed Surplus

Authorized:

10,200,000 common shares without par value.

Prior to February 4, 1983 authorized share capital was 100,000 Class 'A' non-voting common shares of no par value, 10,000,000 Class 'B' voting common shares of no par value and 100,000 Class 'C' 8% cumulative redeemable, convertible, non-voting employee shares of no par value. On that date, the share capital of the company was re-organized by changing all of the authorized capital to common shares. On August 11, 1982, the then outstanding shares were split on a 25 to 1 basis. These financial statements give retroactive effect to the changes in capital structure.

Glenayre
Electronics Ltd.

Notes to the
Consolidated
Financial
Statements

Issued:				Contributed Surplus
	Shares		Dollars	
Balance September 30, 1981	2,279,050	\$	125,162	\$ 165,816
— Issued in year	101,750		122,728	—
— Purchased for cancellation	(35,000)		(1,400)	(2,800)
Balance September 30, 1982	2,345,800		246,490	163,016
— Issued in year;				
Public offering	850,000		7,437,500	—
— On acquisition of ECI Electronics Ltd.	90,006		945,063	
— Other issues	136,500		163,800	
Purchased for cancellation	(3,125)		(2,966)	
Balance September 30, 1983	3,419,181	\$	8,789,887	\$ 163,016

The above shares do not include 109,995 shares held in escrow as described in Note 5

Contributed surplus is the excess of amounts received on sale of par value shares over that value less premiums paid on the purchase and cancellation of such shares.

Pursuant to an agreement dated as of April 19, 1983, an aggregate of 1,774,870 Common Shares beneficially owned by certain directors and management personnel of the company are held by an escrow agent and will be released only with the prior consent of the Superintendent of Brokers or on the following basis. An amount equal to one-third of the originally escrowed Common Shares will be released upon publication of the Company's financial statements for the 1983 fiscal year if the Company's earnings per share for its 1983 fiscal year (calculated after adding to net earnings one-half of the Company's research and development expenses for the year) are in excess of \$0.90 for that year, as determined from its audited financial statements prepared in accordance with generally accepted accounting principles, adjusted so as not to give effect to any changes in such principles subsequent to 1978. A further one-third of such Common Shares (plus any shares not released in 1983 pursuant to the foregoing) will be released if the Company's earnings per share (calculated on the same basis) are in excess of \$1.20 for the 1984 fiscal year. All remaining Common Shares held in escrow will be released following the publication of the Company's financial statements for its fiscal year ending in 1985 if the Company's earnings per share (calculated on the same basis) for such year exceed \$1.70, or its aggregate earnings per share (calculated on the same basis) for its three fiscal years ending in 1985 exceed \$3.80.

In addition to the above, 317,575 Common Shares beneficially owned by certain Shareholders are held in escrow by the Escrow Agent until June, 1984.

An aggregate of 172,063 shares issued to employees under employee share purchase arrangements are held by the Escrow Agent and will be released as follows:-

July 1984	62,750
December 1984	41,063
December 1985	62,750
June 1986	5,500
	172,063

A total of 23,000 shares were reserved by the directors for issuance at \$1.20 per share in 1983 to new employees; as at September 30, 1983, 12,000 of these shares were not issued.

In 1982 the company conditionally allotted 14,000 shares for issue at a price of \$1.20 per share to a company controlled by a former employee which has contracted to provide product development services for the company. The precise number of shares to be issued will depend upon the volume and nature of work required to be performed under the contract, and cannot be determined at this date.

On September 29, 1983, the company agreed to issue a total of 30,000 shares to VMX INC., under the terms of a licence agreement. 20,000 of these shares were issued in November, 1983, and 10,000 will be issued in September, 1985.

Glenayre Electronics Ltd.

Notes to the Consolidated Financial Statements

8. Research and Development and Related Government Assistance

Research and development expenditures less related government grants have been charged to earnings in the year incurred as follows:

	1983	1982 Restated (Note 13)
	(thousands of dollars)	
Company funded expenditure	\$ 2,649	\$ 2,232
Government funded expenditure	348	433
Contract research	683	892
Total expenditure	\$ 3,680	\$ 3,557

Company funded expenditure above differs from that shown in the earnings statement due to the inclusion of depreciation expense in the above figures (1983 — \$91,000; 1982 — \$109,000).

Contract research is carried out for various government agencies on a full-cost basis. Amounts received on these contracts have been credited to sales, and the associated costs charged to cost of sales.

Under the terms of some of the grants, the company is contingently liable for payment of money received or transfer of assets produced should certain conditions not be complied with.

9. Income Taxes

At September 30, 1983, the company had available investment tax credits of approximately \$672,000 to reduce future federal income taxes. These will expire if not used as follows:

September 30, 1987	\$ 200,000
September 30, 1988	296,000
September 30, 1989	176,000

10. Earnings Per Share

Basic earnings per share figures are calculated using the weighted average number of common shares outstanding during the respective fiscal periods after giving effect to the stock split set out in Note 7 to the consolidated financial statements. The weighted average number of shares outstanding is as follows: 1983 — 2,856,030; 1982 — 2,286,575

11. Segmented Information

The company is engaged in the design, manufacture, marketing and servicing of electronic equipment. These activities are divided into three lines of business; communications, transportation and control and instrumentation.

Geographic Segment Information:

The company operates in two geographic segments, which are Canada and the United States.

	1983	1982
	(thousands of dollars)	
Export sales included in the Canadian segment:		
— Mexico	\$ 1,597	\$ 2,364
— Other	668	291
	\$ 2,265	\$ 2,655

Glenayre Electronics Ltd.

Notes to the Consolidated Financial Statements

	Canada	United States	Eliminations	Total
1983 (thousands of dollars)				
Sales	\$ 7,643	\$ 7,863	—	\$15,506
Transfer between segments	4,925	—	(4,925)	—
Total sales	\$12,568	\$ 7,863	(4,925)	\$15,506
Segment operating earnings	\$ 1,721	\$ 790	(5)	\$ 2,506
Total identifiable assets	\$17,326	\$ 1,732	(57)	\$19,001
Capital expenditures	\$ 3,346	\$ (44)	—	\$ 3,302
1982 (thousands of dollars)				
Sales	\$ 7,503	\$ 5,182	—	\$ 12,682
Transfer between segments	2,996	—	(2,996)	—
Total sales	\$ 10,499	\$ 5,182	(2,996)	\$ 12,685
Segment operating earnings	\$ 1,300	\$ 605	(87)	\$ 1,818
Total identifiable assets	\$ 6,915	\$ 2,122	(454)	\$ 8,583
Capital expenditures	\$ 700	\$ 21	—	\$ 721

Industry Segment Information:

The communications group of products includes microprocessor based radiotelephone control heads, terminals, and paging terminals. Transportation products are included with communications since they are for the most part communications products for the railway and mining markets with common technology. The control and instrumentation group produces custom electronic control and instrumentation panels and other equipment for industrial, hydro-electric, thermal-electric and marine applications.

	Communications	Control & Instrumentation	Consolidated Total
1983 (thousands of dollars)			
Sales	\$13,886	\$ 1,620	\$15,506
Segment operating earnings	\$ 2,618	\$ (112)	\$ 2,506
Total identifiable assets	\$ 9,129	\$ 791	\$19,001
1982 (thousands of dollars)			
Sales	\$ 11,119	\$ 1,566	\$ 12,685
Segment operating earnings	\$ 2,128	\$ 29	\$ 2,157
Total identifiable assets	\$ 5,861	\$ 774	\$ 8,583

12. Commitments

The company has entered into rental and lease rental agreements committing the following funds over the next five years:

1984	\$226,392
1985	5,535

The company has commenced work on construction of a building to replace its present leased facility at an approximate cost of \$3,600,000 (land cost of \$1,488,000 is included in fixed assets).

13. Prior Period Adjustments

In connection with a research and development contract carried out under the Federal Enterprise Development Program, the company was advised that expenditures of \$200,910 charged to the contract in fiscal 1982 would not be allowed but would apply to work done in the 1983 portion of the contract. Income tax related to this adjustment is \$95,432.

In December, 1982, the United States Customs agreed that additional duty on goods imported by the subsidiary company was not payable. The estimated amount of alleged duty accrued in 1981 and 1982 of \$122,433 and \$59,342 respectively, together with the related deferred tax adjustments, have been reversed causing net earnings to rise by \$71,717 and \$28,453.

These adjustments have been accounted for retroactively.

Directors

Brian H. Brady*

President

Brink Hamilton Enterprises Ltd.
(investment management company)
Vancouver, B.C.

Gerald H.D. Hobbs*

Private Investor

Vancouver, B.C.

David G. Melvin*

Partner

McTaggart, Ellis and Co.
(barristers and solicitors)
Vancouver, B.C.

E. K. Deering*

President

James W. Chisholm

Senior Vice President

Herbert W. Scott

Plant Manager

* Member of Audit Committee

Officers

E. K. Deering

*Chairman, President, and
Chief Executive Officer*

C. Frederick Welton

Vice President and General Manager

James W. Chisholm

Senior Vice President

Herbert W. Scott

Plant Manager and Secretary

John F. McDermott

Vice President Sales & Marketing

David T. Pritchard

Manager of Administration and Treasurer

Corporate Information

Auditors

MacGillivray & Co.
Vancouver, B.C.

Transfer Agent and Registrar

The Canada Trust Company
Vancouver, B.C.

Bank

The Royal Bank of Canada

Exchange Listing

Toronto Stock Exchange "GLN T"
Vancouver Stock Exchange "GLN V"

Head Office

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Canada V7J 1A3

U.S. Subsidiary

Glenayre Electronics Inc.
12 Pacific Highway
Blaine, WA 98230

Regional Sales Offices

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Sunnyvale, California, U.S.A.
Pinehurst, Texas, U.S.A.
Conyers, Georgia, U.S.A.

